

Place your name on the back of this sheet of paper and nowhere else. Staple your answers face up on the front of this sheet of paper. Failure to follow these directions will cost you 10 points. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to type it will cost you 10 points. If you use double-sided printing or print on the back of scrap paper, I will give you one additional point.

- 1) (10 points) Why is the Social Security Trust Fund projected to run out of money by about 2035? Briefly explain the two long-term trends which have been causing it to shrink.
- 2) (20 points) Some people propose solving the problem by increasing the retirement age. How would that reduce the problem? Explain your logic. Would you use that as part of a package to save Social Security? Why or why not?
- 3) (15 points) According to the article linked below, will President Trump's deportation of illegal aliens slow down or speed up the drain on the Social Security Trust Fund? Explain your logic. If Congress does nothing to save Social Security, what will happen to retiree's benefits when the fund runs out?
<https://www.aarp.org/retirement/social-security/info-2020/10-myths-explained.html>
- 4) (15 points) Draw the Laffer Curve. Explain why it takes that shape.
- 5) (20 points) Suppose a factory will cost \$5000 to rent for a year. It will be able to make hats at a cost of \$40/hat. They will be able to sell 900 hats (each to a different person) at \$50/hat. The factory causes a negative externality which hurts 800 people \$6 each. Should the project be done? Will the market do it? If the government was asked to do it, would they do it? For all three parts, show all calculations and explain your logic.
- 6) (20 points) Suppose a factory will cost \$7000 to rent for a year. It will be able to make coats at a cost of \$50/coat. They will be able to sell 300 coats (each to a different person) at \$70/coat. The factory causes a positive externality which benefits 400 people \$3 each. Should the project be done? Will the market do it? If the government was asked to do it, would they do it? For all three parts, show all calculations and explain your logic.